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Japanese Voters Head To The Polls

Japan's double elections, engineered by Prime Minister Yasuhiro Nakasone, have entered the final stages, and candidates are campaigning furiously to overcome the limitations of the short electioneering period. Officially the campaign began June 18 for the upper house and June 21 for the lower house, although the prime minister jumped the gun by making a series of political speeches in mid-June to defend his record on domestic and foreign policy issues.

In the upper house, 506 candidates are vying for 126 seats. (Only half of the 252 seats are subject to election every three years.) Of those, 243 are running for 50 nationwide at-large seats, while the remainder are divided among 76 races in local election districts. In the more important lower house, 837

Japanese Foreign Assistance: Prospects And Problems

The Japanese Foreign Ministry's preliminary figures for overseas development assistance (ODA) disbursements during the 1985 fiscal year reveal that the overall weakness of the yen prevented Tokyo from reaching its aid-doubling goals for fiscal years 1981-85. Moreover, exchange rate problems, delays in certain multilateral disbursements and sluggish world economic growth all contributed to the largest percentage drop in ODA in 21 years.

The five-year aid doubling plan begun in FY 1981 called for cumulative spending of $21.4 billion by FY 1985. Statistics show that Japan achieved 84.6 percent of that goal, with approximately $18.1 billion in ODA disbursements. A large part of the blame for the shortfall goes to the exchange rate. The yen dropped from an average Y220.54 to the dollar in 1981 to an average Y238.54 in 1985, despite its steep appreciation in the last quarter of 1985. If the yen had held steady or near its January 1981 rate of Y202, when the doubling target was set, the aid goal would have easily been met, according to Foreign Ministry officials.

However, the sharp appreciation of the yen in recent months has boosted the objectives of the new seven-year aid doubling plan announced late last year (see JEI Report No. 44A, November 15, 1985). The new goal is to disburse more than $40 billion by 1992. In light of the yen's current strength and the likelihood that it will probably not plunge again, there is some support in the Foreign Ministry for taking advantage of the exchange realignment and shortening the seven-year target by several years. The prospects for the first year of the new plan already seem bright; even if the ODA disbursement rate remains unchanged from 1985's level, the dollar figure will soar. A new target is under study.

Still, the dollar's strength had a large impact on the 1985 figures. Japan spent $3.8 billion on ODA, a 12.1 percent decline over 1984 spending. The last time such a sharp year-to-year drop in disbursements occurred was in 1963-64, when outlays fell 17.6 percent. The ratio of ODA to Japan's gross national product, one of several international indicators of ODA performance, fell as well, dropping to 0.29 -- the first time in three years that the figure has fallen below 0.3 percent.

According to these statistics, Japan will once again rank as the third-largest ODA donor nation after the United States and France. Comparison and evaluation of the ODA programs of the 17 member-nations of the Development Assistance Committee of the Organization for Economic Cooperation and Development will be announced June 26 following an annual aid meeting in Paris. In 1984 Japan surpassed France to become the second-largest donor nation among DAC participants.

Other factors contributed to last year's decrease in Japan's aid spending, including a big 34.4 percent drop in multilateral assistance. A substantial bottleneck in capital subscriptions and other payments to such agencies as the International Development Association (IDA) has developed. Although Japan's commitments to international financial institutions remain heavy, there is a long lag time between the initial allocation of funds and their actual use. Requests for disbursements originate with the international

agency. Sluggish world economic growth has meant agencies like IDA have had a difficult time promoting new loans. Consequently, fewer requests for financial support from Japan and other contributors have been made.

Sluggish economic growth and its impact on ODA distribution is also seen in Japan's aid figures. The pace of loan disbursement by the Japanese aid bureaucracy, such as the Overseas Economic Cooperation Fund (OECF), has slowed over the past two years. The slowdown in the economies of developing nations has hindered efforts to find local financing components for Japanese aid projects. The difficulty of identifying appropriate projects for funding, a perennial problem, compounds the situation.

Concurrently, Japan's ODA program has suffered a major setback both in terms of aid flows and public relations as a result of the change of government in the Philippines, a longstanding ODA recipient. Development assistance was suspended during the course of the political upheaval there, and full reinstatement faces many delays. Scandal taints the entire process. With the end of the regime of Ferdinand Marcos came allegations that Japanese firms and the aid bureaucracy were involved with illegal payoffs in connection with development projects. Tokyo has consequently begun a close examination of past assistance to the Philippines, and reviews of aid distribution procedures have taken on a renewed urgency.

Japan's Official Development Assistance, 1985

(Preliminary figures, in millions of dollars)

	1983	1984	1985	Percent Change
Bilateral ODA	$2,425	$2,427	$2,557	5.3%
Grant Aid	993	1,064	1,185	11.4
Extension of Funds	535	543	636	17.1
Technical Cooperation	458	521	549	5.4
Bilateral Loans	1,432	1,363	1,372	0.6
Multilateral ODA	1,336	1,891	1,240	-34.4
Grants	305	257	286	11.2
Direct Contributions to International Organizations	1,035	1,638	957	-41.6
Loans	-4	-4	-3	--
Total ODA	3,761	4,319	3,797	-12.1
Ratio of ODA to GNP	0.32%	0.34%	0.29%	

Source: Japanese Foreign Ministry

Despite pressure to resume aid activities, officials are gun-shy about the aid relationship. During an early June visit to Tokyo, Philippines Vice President Salvador Laurel, who made several public requests for increased assistance, was told by Foreign Minister Shintaro Abe that Japan would increase

its grants and technical assistance under certain conditions. Aid officials explain that Tokyo wants the Philippines to establish a stable decisionmaking process for aid projects, clearly elucidate its aid needs, and straighten out its bookkeeping before reestablishing major aid flows.

The Japanese government also wants to avoid more embarrassing incidents of the kind created recently when Manila rejected several Japanese assistance projects. The new Aquino government canceled four projects arranged last December as part of an aid package negotiated with the Marcos regime, claiming that they were too closely linked with Mr. Marcos and his business cronies. In late May, following a period of great uncertainty, the OECF announced the conclusion of a $97.6 million loan for the Philippines to fund the seven remaining development projects.

Sheri Hoptman

New Lifetimes For Japanese Capital?

Urged on by the yen's appreciation, the Ministry of Finance is paying more attention to revising the current depreciation system. Japanese business groups have complained for many years about the current system of recovering capital costs and have pointed to the U.S. system with envy (see JEI Report No. 45A, November 30, 1984). MOF, on the other hand, has hesitated to revise the scheduled life of plant and equipment or to alter calculation methods because it will surely reduce revenue. But the reduction in Japan's international competitiveness brought about by the yen's steep rise seems to have dislodged MOF from this entrenched position.

Although the current schedule of plant and equipment lifetimes has been adjusted several times in the past 25 years (see Table 1), the changes have been modest. From the point of view of most business leaders, the last significant change was made in 1966 when the useful lifespan of plants and structures was reduced an average 15 percent.

While some observers might consider this stability a plus since it allows for effective long-term corporate investment planning, most businessmen feel that the system has failed to keep pace with current demands. They point out that even before President Reagan instituted the accelerated cost recovery schedule in 1981, U.S. tax law allowed plant and equipment to be depreciated over a considerably shorter time than in Japan (see Table 2). The accelerated cost recovery system, they continue, has given U.S. firms an even greater advantage in writing off capital costs. For items such as automotive manufacturing equipment or semiconductor plants, U.S. lifetimes are 40 to 50 percent shorter than Japan's. The gap is very important in high technology industries where heavy, consistent capital investment is absolutely vital.

The Finance Ministry has been studying the problem for many years, but both because of the yen's rise and a Tax Commission report calling for a thorough review, finally seems to be ready to act. MOF has informally proposed the following changes: a simplification of plant and equipment classifications; the reduction of current statutory lifetimes by 10 to 20 percent; and an increase in the current maximum depreciable amount from 95 percent to 100 percent of the purchase price. MOF estimates that these changes will mean Y1 to

meaning there will be little or no reduction in the competitive pressures felt by foreign firms.

Jon Choy

Table 2: International Comparison of Statutory Life of Plant and Equipment

(in years)

	Japan		United States			West	
	Normal	ADR	ACRS	CCRS	Britain	Germany	France
Structures							
Administrative use	65	45	18	28	25	50	25
Retail use	60	60					20-50
Manufacturing/storage	45	45					20
		60					
Equipment							
Spinning	10	9	5	7	*	7-10	7-10
Weaving	10	9				7-10	
Petrochemical	9	7.5				10	
Oil and gas	8	13				8-12	
Iron and steel	14	12				5-10	
Nonmetallic refining	9	11				8-12	
Metalworking machinery	10	9.5				5-15	
Electric machinery	11	8				5-15	
Automotive machinery	10	9.5				5-12	
Shipbuilding, repair	12	9.5				5-12	

*fixed amount (25 percent) depreciation

Notes:
ADR - Accelerated Depreciation Recovery
ACRS - Accelerated Cost Recovery Schedule
CCRS - Capital Cost Recovery Schedule

Source: Ministry of International Trade and Industry

Japan-Latin America Trade

Japan-Latin American trade is characterized by Japanese exports of manufactured products, particularly machinery, in exchange for a variety of raw materials. Crude oil accounted for four-fifths of Mexico's shipments to Japan in 1985, while oil and aluminum accounted for 84 percent of Venezuela's. Chile and Peru exported copper and iron ore; Argentina shipped various agricultural products; and Brazil's major exports were iron ore and coffee.

In contrast to its $8.9 billion deficit with the ASEAN countries (Thailand, Singapore, Malaysia, Brunei, Philippines and Indonesia) in 1985, Japan on paper registered a trade surplus with Latin America (see Table 1). The total

figures, though, are misleading; ships accounted for five-sixths of Japan's exports to Panama, a reflection of the many international shipping companies incorporated in that country. If that item is excluded, Japan ran a $568 million deficit with Latin America.

Table 1: Japan's Trade with Latin American Countries

(in millions of dollars)

Country	1981 Exports	1981 Imports	1985 Exports	1985 Imports
Panama	$2,210	$131	$3,326	$81
Mexico	1,705	1,437	994	1,870
Brazil	1,367	1,578	615	1,840
Puerto Rico	346	52	725	108
Venezuela	925	912	352	368
Chile	742	531	169	534
Argentina	785	281	225	443
Colombia	497	150	422	150
Peru	350	602	141	332
Cuba	267	154	301	92
All Latin America	10,516	6,669	8,486	6,242

Source: Japan Tariff Association

The debt crisis, which began in Mexico in August 1982, has significantly reduced Japanese exports to the region. Shipments to the 10 major Latin American debtors fell from $6.8 billion in 1981 to $2.9 billion in 1983 (see Table 2). Another decline in 1985 reduced exports to this group to only 1.8 percent of total Japanese exports, compared to 4.5 percent in 1981. This has contributed to Japan's rising dependence on the U.S. market, whose share of Japanese exports rose from 25.4 percent in 1981 to 37.2 percent in 1985.

Table 2: Japan's Trade with Major Latin America Debtors*

(in millions of dollars)

Year	Exports	Imports	Balance
1981	$6,831.7	$5,942.4	$889.3
1982	4,897.9	5,580.6	-682.7
1983	2,873.6	5,871.1	-2,997.5
1984	3,277.5	6,462.8	-3,185.3
1985	3,154.9	5,619.9	-2,465.0

*Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, Venezuela.

Source: Japan Tariff Association

The decline in Japanese shipments paralleled the drop in U.S. exports to Latin America debtor nations, which fell from $35.2 billion in 1981 to $19.3 billion two years later, before rising to $24.3 billion in 1985. But the debt crisis has had a more significant impact on the United States since these countries are a more important market for this country, accounting for 15 percent of total exports in 1981. In 1985 they accounted for only 11.4 percent of U.S. exports.

There was no sign of improvement in Japan's exports to the region during the first three months of 1986. In dollar terms, shipments rose 12.6 percent from the year earlier, reflecting the appreciation of the yen. But valued in yen, exports were down 16.6 percent. Imports, which have been much less volatile during the past five years, showed a similar tendency, up 15.8 percent in the first quarter valued in dollars but down 13.2 percent in yen terms.

Randall S. Jones

Gold Card System To Expedite High Technology Exports

"It is the first significant reform of the export licensing system in many, many years -- decades," declared Steven Bryen, deputy under secretary of Defense for trade security policy, after the Reagan administration recently announced expedited procedures for the export of high technology items. During a June 17 press conference, officials unveiled what amounts to an overhaul of U.S. export controls policy: U.S. exporters will no longer have to go through cumbersome licensing procedures when dealing with a select group of foreign end-users.

Instead of applying for a license to sell controlled items to foreign firms and governments, American firms will simply have to verify that the overseas purchaser is a pre-approved end-user that has demonstrated compliance with regulations prohibiting the sale or re-export of sensitive products to the Soviet Union or other Eastern bloc countries. The new system will reportedly reduce the approval time for high technology sales from an average eleven days to only one to two days. A list of reliable end-users, dubbed "gold card" holders by administration officials, is currently being compiled. They will be certified by the Commerce Department for an initial two-year period and publicly identified once the regulations take effect.

Trade officials admitted that intense congressional criticism of current export control procedure had prompted revision of the regulations. Business groups had urged Congress to act on their complaints that national security considerations were hampering overseas sales (see JEI Report No. 8B, February 28, 1986). In response, the omnibus trade bill approved by the House of Representatives in May requires the current list of items controlled through licensing procedures to be cut by 40 percent. The administration maintains that about 80 percent of the products currently controlled could qualify for expedited treatment if sold to purchasers on the gold card list.

The new regulations, expected to be in place by this fall, will be applied first to the member nations of the Coordinating Committee for Multilateral Export Controls (COCOM), which includes Japan and NATO member nations.